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Gary Collord
California Air Resources Board
1001 I Street
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Re: Comments on Draft Renewable Energy Standard

Sempra Generation appreciates this opportunity to provide comments on CARB's Preliminary Draft Renewable Energy Standard, based on the April 5, 2010 CARB workshop. Sempra Generation is an owner and developer of renewable and fossil energy resources principally serving markets in the southwest United States.

The Renewable Energy Standard ("RES") Preliminary Draft regulation at Article 6, §97004 notes that CARB staff is considering two options for demonstrating compliance with the RES. Option 1 would allow unlimited use of unbundled and undelivered renewable energy credits ("RECs") from within the region of the Western Electricity Coordinating Council to meet the RES. Option 2 would allow the use of tradable RECs consistent with the approach defined by the CPUC in D.10-03-021(the "CPUC Decision") issued on March 16, 2010. In defining the two options, the staff seeks comment on how the options will impact investments for in-state renewables and associated transmission development, the availability and cost of RECs and other information to assist them in making an informed choice.

Sempra Generation recommends that CARB adopt an approach that is consistent with the CPUC Decision in meeting the 33% target. The CPUC Decision notes the significant benefit provided by bundled delivery of incremental renewable energy to California consumers over the purchase of a REC certificate, emphasizing that "Transactions that convey both RECs and energy and in which the RPS-eligible energy is directly scheduled without firming and shaping to California load provide more specific benefits to California load." (CPUC Decision at page 27)

CARB's adoption of the CPUC Decision and the developing procurement framework will serve to appropriately increase development of renewable resources to and within California, based on the benefits they provide to California load. The CPUC Decision and follow-on CPUC investigations into mechanisms such as firm transmission delivery and least-cost procurement plans will provide greater benefits in the long term by supporting a least-cost procurement and appropriate development of renewable resources and transmission to directly serve California customers. This framework should properly balance the value of purchasing a REC certificate from a resource remote from California load, with the value of incremental renewable energy delivered to California customers.

- **The greatest reduction in California emissions will occur with the delivery of renewable energy directly to California.**

Under the First Deliverer approach, schedules into California of low marginal cost, zero emissions renewable energy will reduce both prices in California's energy markets and the cost of allowances in the AB32 allowance market – benefits not captured by the simple purchase and surrender of a REC certificate. Arguably, displacement of fossil generation by renewables in a remote portion of the WECC will have little or no effect on reducing California's actual emissions. Given the objective to reduce the cost of AB32 implementation to California consumers (Letter from Governor Arnold Schwarzenegger to Mary Nichols dated 3/24/2010), it is vital to consider all of the benefits of direct delivery in the AB32 rulemaking.

The CPUC Decision seeks to balance costs and benefits by expanding the set of potential renewable resources that provide the benefits of bundled energy delivery to California to include dynamic scheduling and pseudo tie arrangements. These arrangements also have the potential to reduce the overall cost of renewable integration by accessing a larger supply of ancillary service resources than may be available in their host balancing area. Further, the CPUC's exploration of firm transmission arrangements may expand the available resource base while providing the equivalent benefits of bundled energy delivery. (CPUC Decision at p. 32.)

- **CARB's approach to the RES should reflect least-cost procurement principles and balance the costs and benefits of the array of potential renewable transactions.**

The unlimited use of REC-only transactions is one end of the spectrum of possible renewable transactions, and does not consider or provide a reasoned balance of the benefits of direct delivery renewable energy for California consumers. The CPUC Decision was years in the making and considered extensive stakeholder input from numerous parties. CARB should adopt the CPUC Decision rather than re-litigating the elements considered. Further, IOU procurement must be consistent with ongoing CPUC determinations in the long term procurement proceedings. The CPUC will no doubt further refine its mechanisms to directly value the specific benefits of various bundled and REC-only options in the renewable procurement process. Adopting alternative rules to meet the RES that differ from those of the CPUC is a potential source of confusion and conflict, and is neither efficient nor desirable for commercial financing and development. In order to avoid conflicting regulations in meeting the 33% target, CARB should therefore defer adopting exclusive RES rules, such as unlimited use of REC-only transactions, while the CPUC processes progress. Finally, in the event that the legislature adopts RPS reform to meet the 33% target, it is likely that the requirements would be designed to be applied consistently with respect to both CARB and the CPUC processes.

Sincerely,

Shawn Bailey